

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Standish	County Arenac
Audit Date June 30, 2005	Opinion Date November 22, 2005	Date Accountant Report Submitted to State: February 7, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

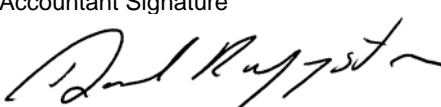
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name) Yeo & Yeo CPA's			
Street Address 3023 Davenport	City Saginaw	State MI	ZIP 48602
Accountant Signature 			

CITY OF STANDISH
Standish, Michigan
Annual Financial Statements
and
Auditors' Report
June 30, 2005

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City of Standish
List of Elected and Appointed Officials
June 30, 2005

CITY COUNCIL

KEVIN P. KING	MAYOR
JERRY NELSON	MAYOR PRO-TEM
MARK WINSLOW	COUNCILMAN
TIM CAMPAU	COUNCILMAN
CLARK SANFORD	COUNCILMAN
LESTER COUSINEAU, JR.	COUNCILMAN
RICHARD VOLLBACH	COUNCILMAN

OTHER OFFICERS AND OFFICIALS

TORI D. KELLY	CITY MANAGER
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Independent Auditors' Report

To the City Council
City of Standish
Standish, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Standish as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Standish as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2005 on our consideration of the City of Standish's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Standish's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

Saginaw, Michigan

November 22, 2005

City of Standish
Management's Discussion and Analysis
Year Ended June 30, 2005

Our discussion and analysis of the City of Standish's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005.

Total net assets related to the City's governmental activities are \$2,752,312. The unrestricted portions of net assets are \$347,552 (see table of statement of net assets on the following page).

Tax revenues, the City's largest revenue source, increased by approximately \$50,000 from 2004. This is representative of new construction that the City experienced in the prior year. Without new development, the City will be faced with a declining tax revenue, a direct result of Proposal A, which is a major concern to the City.

State shared revenues, our second largest revenue source, was reduced by about \$10,000 by the State of Michigan this year. In light of continuing State Budget Problems, and constant threat to take away all revenue sharing, the City has reacted by invoking tighter controls over all expenditures. The City was fortunate, this fiscal year, to experience an increase in tax revenues to counteract the decrease in revenue sharing. This may not be true for upcoming years.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Standish as a whole and present a longer-term of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing governmental services.

The fund financial statements present a short term view; they tell us how the taxpayer's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the City.

City of Standish
Management's Discussion and Analysis
Year Ended June 30, 2005

The City of Standish as a Whole

The following table shows, in a condensed format, the statement of net assets as of June 30, 2004 and 2005.

	Governmental Activities 2004	Governmental Activities 2005	Business-type Activities 2004	Business-type Activities 2005	Total 2004	Total 2005
Current assets	\$ 1,036,664	\$ 743,986	\$ 614,846	\$ 594,668	\$ 1,651,510	\$ 1,338,654
Capital assets	<u>2,324,852</u>	<u>3,465,426</u>	<u>10,022,931</u>	<u>11,091,378</u>	<u>12,347,783</u>	<u>14,556,804</u>
Total assets	<u>3,361,516</u>	<u>4,209,412</u>	<u>10,637,777</u>	<u>11,686,046</u>	<u>13,999,293</u>	<u>15,895,458</u>
Current liabilities	424,406	320,306	198,784	1,250,817	623,190	1,571,123
Long term liabilities	<u>262,166</u>	<u>1,136,796</u>	<u>2,199,000</u>	<u>2,471,500</u>	<u>2,461,166</u>	<u>3,608,296</u>
Total liabilities	<u>686,572</u>	<u>1,457,102</u>	<u>2,397,784</u>	<u>3,722,317</u>	<u>3,084,356</u>	<u>5,179,419</u>
Total net assets	<u>\$ 2,674,944</u>	<u>\$ 2,752,310</u>	<u>\$ 8,239,993</u>	<u>\$ 7,963,729</u>	<u>\$ 10,914,937</u>	<u>\$ 10,716,039</u>

The City's net assets for governmental activities are \$2,752,310 and \$7,963,729 for business type activities; of these amounts \$347,552 (governmental) and (\$542,649) (business-type) are unrestricted assets.

City of Standish
Management's Discussion and Analysis
Year Ended June 30, 2005

	Governmental Activities 2004	Governmental Activities 2005	Business-type Activities 2004	Business-type Activities 2005	Total 2004	Total 2005
Revenue						
Program revenue						
Charges for services	\$ 77,045	\$ 94,756	\$ 709,216	\$ 726,106	\$ 786,261	\$ 820,862
Capital grants and contributions	82,875	181,085	-	-	82,875	181,085
General revenue:						
Property taxes	538,220	589,760	61,620	45,747	599,840	635,507
State-shared revenue	420,551	264,418	-	-	420,551	264,418
Unrestricted investment earnings	9,141	1,972	4,294	4,551	13,435	6,523
miscellaneous revenue	37,240	34,853	-	25,970	37,240	60,823
Total revenue	<u>1,165,072</u>	<u>1,166,844</u>	<u>775,130</u>	<u>802,374</u>	<u>1,940,202</u>	<u>1,969,218</u>
Program expenses						
General government	445,634	528,866	-	-	445,634	528,866
Public safety	116,319	99,282	-	-	116,319	99,282
Public works	566,323	559,493	-	-	566,323	559,493
Recreation and culture	10,421	11,421	-	-	10,421	11,421
Interest on long-term debt	18,833	20,416	-	-	18,833	20,416
Water, sewer and airport	-	-	1,003,358	948,638	1,003,358	948,638
Total program expenses	<u>1,157,530</u>	<u>1,219,478</u>	<u>1,003,358</u>	<u>948,638</u>	<u>2,160,888</u>	<u>2,168,116</u>
Transfers	<u>80,000</u>	<u>130,000</u>	<u>(80,000)</u>	<u>(130,000)</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>\$ 87,542</u>	<u>\$ 77,366</u>	<u>\$ (308,228)</u>	<u>\$ (276,264)</u>	<u>\$ (220,686)</u>	<u>\$ (198,898)</u>

City of Standish
Management's Discussion and Analysis
Year Ended June 30, 2005

Governmental Activities

The City's total governmental activity revenues were basically flat when compared to the prior years. The City did have a slight increase in the \$882,381. There was a slight decrease in property taxes and grants in the current year which is offset by a decrease in funding from State sources.

Governmental activity expenditures increased by about \$60,000 in 2005. This included increases in health care costs and property and liability insurance rates. To offset these increases in cost, the City closely monitored its spending in all other areas.

Business Type Activities

The City of Standish's business-type activities consist of Water Fund, Sewer Fund, and Airport Fund. The water and sewer funds are combined major funds.

The City provides treated water to the city residents. Raw water is purchased from Saginaw-Midland Water Supply System. The City also provides water to approximately 42 Standish and Lincoln Township customers. The City has revenue bonds and a general obligation bond debt for recent system wide improvements. Fiscal year 2005 shows we had a decrease in volume of water sold from 2004, which can be attributed to recent water system improvements.

The City also provides municipal sanitary sewer to its residents.

The City has not increased the water and sewer rates since 1993. The City will increase rates in fiscal year 2006 in order to meet bond debt requirements for the 2004 Water System Improvement Project. In addition, increased mandate requirements being passed by State and Federal legislation will be passed on to users of the system.

City of Standish Funds

The fund financial statements provide detailed information about the most significant funds, not the City of Standish as a whole. The City Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51, and Major and Local Street funds for 2005. The City's major governmental funds include the General Fund, Major Street Fund, Local Street Fund, and the Street Capital Project Fund.

City of Standish
Management's Discussion and Analysis
Year Ended June 30, 2005

a) General Fund

Functions relating to the general governmental activities of the City, which are financed by property tax levies, by distribution of State revenues, and from fees charged for various municipal activities and services are recorded in the General Fund. City Council's approved budget for the 2005 fiscal year included the use of \$125,000 of the fund balance in the General fund, of which the City actually used \$172,605 and left \$198,156 in fund balance at year end.

b) Major and Local Street Funds and Street Capital Project Fund

The State of Michigan provides municipalities revenues from gas and weight taxes to reimburse expenditures for the maintenance and construction of the City's street system. The State requires that these expenditures be segregated into a Major Street component and a Local Street component. The city uses these funds for improvements to the City street system, along with contributions from the General Fund. The Street Capital Project fund receives grant revenues and debt proceeds and completes construction on street related projects.

General Fund Budgetary Highlights

Over the course of the year, the City Council and City administration monitor and amend the budget to account for unanticipated events during the year. The most significant change was a decrease in State shared revenue, additional unfunded mandates, and increased benefit costs. Prudent budgeting and continued monitoring of all expenditures reduced the effect of these issues.

Capital Asset and Debt Administration

At the end of 2005 the City of Standish has \$14,559,170 invested in a wide range of capital assets, including land, buildings, equipment, computer equipment, and water and sewer lines. The value of the governmental infrastructure assets, net of depreciation contained in this report, is \$453,697 at the end of 2005. This is an increase of over \$2.2 million and is due mostly to the capital projects in the Water and Street Funds.

Debt reported in these financial statements is related to the construction of the above-mentioned infrastructure assets and buildings and is reported as a liability on the statement of net assets.

City of Standish
Management's Discussion and Analysis
Year Ended June 30, 2005

Economic Factors and Next Year's Budgets and Rates

The City of Standish's budget for the upcoming fiscal year includes a substantial increase over the audited fiscal year's budget. The 2004 Street and Sidewalk Improvement Project was completed, which enhanced several streets and sidewalks throughout the City of Standish, and several other capital improvements were initiated. In addition, the City began the much anticipated Water System Improvement Project. The project will include many upgrades to existing water mains, hydrant additions, dual transmission line installation, and a new treatment plant.

The City needs to continue to monitor its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase by less than inflation, the mathematical result of this is that the total taxable value for the City will grow less than inflation, before considering new property additions. State revenue-sharing payments were decreased again this past year with the potential to decrease again due to State cutbacks and less sales tax receipts at the State level. These factors, coupled with recent decreases from historical norms in other revenues, including charges for services and interest on investments, continue to have a concern on the City's ability to balance its budget.

Despite these concerns, the City will continue to operate as efficiently as possible in the next fiscal year. With a decreased amount of funds budgeted for general operations and the restructuring of employee benefits, the City is hopeful to offset the decrease in revenues that will continue to exist.

To encourage additional growth the City has taken advantage of all grant opportunities available. While a financial match is often required of the City for grant funded projects, the City has taken a fiscally responsible approach of ensuring adequate funds are available for such projects. In addition, the City has continued to view economic development as a primary focus. While economic concerns are often left behind in difficult financial times, the City has taken the approach that without ensuring a solid future tax base the tough times will only continue to exist.

Contacting the City of Standish's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City of Standish's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the City.

City of Standish
Statement of Net Assets
June 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
Assets				
Cash and cash equivalents	\$ 487,356	\$ 428,051	\$ 915,407	\$ 53,837
Receivables (net)	42,726	166,617	209,343	-
Internal balances	19,312	-	19,312	-
Due from other governmental units	194,592	-	194,592	13,625
Capital assets (net)	3,465,426	11,091,378	14,556,804	-
Total assets	4,209,412	11,686,046	15,895,458	67,462
Liabilities				
Accounts payable	149,364	469,728	619,092	-
Due to other governmental units	7,324	-	7,324	-
Accrued and other liabilities	52,076	667,589	719,665	-
Noncurrent liabilities				
Due within one year	111,542	113,500	225,042	-
Due in more than one year	1,136,796	2,471,500	3,608,296	-
Total liabilities	1,457,102	3,722,317	5,179,419	-
Net Assets				
Invested in capital assets, net of related debt	2,217,088	8,506,378	10,723,466	-
Restricted for:				
Streets and highways	136,182	-	136,182	-
Debt service	51,488	-	51,488	-
Unrestricted	347,552	(542,649)	(195,097)	67,462
Total net assets	\$ 2,752,310	\$ 7,963,729	\$ 10,716,039	\$ 67,462

See Accompanying Notes to Financial Statements

City of Standish
Statement of Activities
Year Ended June 30, 2005

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-type Activities	Totals	Downtown Development Authority
Primary government								
Governmental activities								
General government	\$ 528,866	\$ -	\$ -	\$ -	\$ (528,866)	\$ -	\$ (528,866)	\$ -
Public safety	99,282	9,040	-	-	(90,242)	-	(90,242)	-
Public works	559,493	85,716	-	181,085	(292,692)	-	(292,692)	-
Recreation and culture	11,421	-	-	-	(11,421)	-	(11,421)	-
Interest on long-term debt	20,416	-	-	-	(20,416)	-	(20,416)	-
Total governmental activities	<u>1,219,478</u>	<u>94,756</u>	<u>-</u>	<u>181,085</u>	<u>(943,637)</u>	<u>-</u>	<u>(943,637)</u>	<u>-</u>
Business-type activities								
Sewer	691,125	356,879	-	-	-	(334,246)	(334,246)	-
Water	255,449	369,227	-	-	-	113,778	113,778	-
Airport	2,064	-	-	-	-	(2,064)	(2,064)	-
Total business-type activities	<u>948,638</u>	<u>726,106</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(222,532)</u>	<u>(222,532)</u>	<u>-</u>
Total primary government	<u>\$ 2,168,116</u>	<u>\$ 820,862</u>	<u>\$ -</u>	<u>\$ 181,085</u>	<u>(943,637)</u>	<u>(222,532)</u>	<u>(1,166,169)</u>	<u>-</u>
Component unit								
Downtown Development Authority	\$ 10,276	\$ -	\$ -	\$ -				(10,276)
General revenues								
Property taxes, levied for general purposes					589,760	-	589,760	26,423
Property taxes, levied for debt service					-	45,747	45,747	-
Customer charges for debt service					-	25,970	25,970	-
State shared revenue					264,418	-	264,418	-
Unrestricted investment earnings					1,972	4,551	6,523	995
Miscellaneous					34,853	-	34,853	15,000
Transfers					130,000	(130,000)	-	-
Total general revenues and transfers					<u>1,021,003</u>	<u>(53,732)</u>	<u>967,271</u>	<u>42,418</u>
Change in net assets					77,366	(276,264)	(198,898)	32,142
Net assets - beginning					<u>2,674,944</u>	<u>8,239,993</u>	<u>10,914,937</u>	<u>35,320</u>
Net assets - ending					<u>\$ 2,752,310</u>	<u>\$ 7,963,729</u>	<u>\$ 10,716,039</u>	<u>\$ 67,462</u>

See Accompanying Notes to Financial Statements

City of Standish
Balance Sheet
Governmental Funds
June 30, 2005

	General	Major Street	Local Street	Street Capital Project Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 178,063	\$ 40,588	\$ 138,414	\$ 80,252	\$ 50,039	\$ 487,356
Accounts receivable	-	-	-	-	42,726	42,726
Due from other governmental units	66,274	122,123	6,195	-	-	194,592
Due from other funds	19,312	-	-	-	-	19,312
Total assets	<u>\$ 263,649</u>	<u>\$ 162,711</u>	<u>\$ 144,609</u>	<u>\$ 80,252</u>	<u>\$ 92,765</u>	<u>\$ 743,986</u>
Liabilities and Fund Balance						
Liabilities						
Checks written against future deposits	\$ -	\$ -	\$ -	\$ -	\$ 10,593	\$ 10,593
Accounts payable	2,400	17,787	117,139	12,038	-	149,364
Accrued payroll	15,764	120	399	-	-	16,283
Due to other governmental units	7,324	-	-	-	-	7,324
Deferred revenue	40,005	8,622	-	-	31,884	80,511
Total liabilities	<u>65,493</u>	<u>26,529</u>	<u>117,538</u>	<u>12,038</u>	<u>42,477</u>	<u>264,075</u>
Fund balance	<u>198,156</u>	<u>136,182</u>	<u>27,071</u>	<u>68,214</u>	<u>50,288</u>	<u>479,911</u>
Total liabilities and fund balance	<u>\$ 263,649</u>	<u>\$ 162,711</u>	<u>\$ 144,609</u>	<u>\$ 80,252</u>	<u>\$ 92,765</u>	<u>\$ 743,986</u>

See Accompanying Notes to Financial Statements

City of Standish
Reconciliation of the Balance Sheet
Governmental Funds to the Statement of Net Assets
June 30, 2005

Total fund balances for governmental funds \$ 479,911

Total net assets reported for governmental activities in the statement of net assets is different because:

Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds

Deferred special assessments	\$ 40,005	
Deferred grant revenue	<u>40,506</u>	80,511

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 3,465,426

Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets.

Balances as of June 30, 2005 are as follows:

Bonds payable	(225,000)	
New loan payable	(875,000)	
Capital lease payable	(114,590)	
Installment loans payable	(33,748)	
Accrued interest payable	(12,500)	
Compensated absences payable	<u>(12,700)</u>	<u>(1,273,538)</u>

Net assets of governmental activities **\$ 2,752,310**

City of Standish
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2005

	General	Major Street	Local Street	Street Capital Project Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes	\$ 552,941	\$ -	\$ -	\$ -	\$ 36,819	\$ 589,760
Licenses and permits	1,669	-	-	-	-	1,669
State grants	211,165	192,558	65,526	-	-	469,249
Federal grants	-	95,000	-	86,085	-	181,085
Charges for services	29,800	-	11,174	-	41,633	82,607
Interest	1,691	-	18	127	136	1,972
Other revenue	33,184	-	-	-	-	33,184
Total revenue	<u>830,450</u>	<u>287,558</u>	<u>76,718</u>	<u>86,212</u>	<u>78,588</u>	<u>1,359,526</u>
Expenditures						
General government	518,607	-	-	-	-	518,607
Public safety	99,282	-	-	-	-	99,282
Public works	398,720	28,401	33,330	-	37,069	497,520
Recreation and cultural	8,000	-	-	-	-	8,000
Capital outlay	200,177	178,743	-	844,400	-	1,223,320
Debt service	90,599	-	-	-	7,226	97,825
Total expenditures	<u>1,315,385</u>	<u>207,144</u>	<u>33,330</u>	<u>844,400</u>	<u>44,295</u>	<u>2,444,554</u>
Excess (deficiency) of revenues over expenditures	<u>(484,935)</u>	<u>80,414</u>	<u>43,388</u>	<u>(758,188)</u>	<u>34,293</u>	<u>(1,085,028)</u>
Other financing sources (uses)						
Proceeds from issuance of debt	-	-	-	875,000	-	875,000
Capital leases	157,330	-	-	-	-	157,330
Operating transfers in	155,000	-	-	-	-	155,000
Operating transfers out	-	(25,000)	-	-	-	(25,000)
Total other financing sources (uses)	<u>312,330</u>	<u>(25,000)</u>	<u>-</u>	<u>875,000</u>	<u>-</u>	<u>1,162,330</u>
Net changes in fund balance	(172,605)	55,414	43,388	116,812	34,293	77,302
Fund balance (deficit), beginning of year	370,761	80,768	(16,317)	(48,598)	15,995	402,609
Fund balance, end of year	<u>\$ 198,156</u>	<u>\$ 136,182</u>	<u>\$ 27,071</u>	<u>\$ 68,214</u>	<u>\$ 50,288</u>	<u>\$ 479,911</u>

See Accompanying Notes to Financial Statements

City of Standish
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of
Governmental Funds to the Statement of Activities
Year Ended June 30, 2005

		Primary Government
Net change in fund balances - total governmental funds		\$ 77,302
Total change in net assets reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Depreciation expense	\$ (76,182)	
Capital outlay	<u>1,216,756</u>	1,140,574
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		
Special assessments	3,108	
State revenues	<u>(195,791)</u>	(192,683)
Issuance of long term debt		(875,000)
Capital lease proceeds		(157,330)
Principal repayments of long-term debt is an expenditure in the governmental funds, but reduces the liability in the statement of net assets.		
Repayments of long-term debt		80,710
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in compensated absences payable	7,093	
Change in accrued interest on bonds	<u>(3,300)</u>	<u>3,793</u>
Change in net assets of governmental activities		<u>\$ 77,366</u>

See Accompanying Notes to Financial Statements

City of Standish
Statement of Net Assets
Proprietary Funds
June 30, 2005

	Business-type Activities - Enterprise Funds			
	Major Funds		Nonmajor Fund	Total
	Sewer	Water	Airport	
Assets				
Current assets				
Cash and cash equivalents	\$ 428,033	\$ -	\$ 18	\$ 428,051
Accounts receivable	88,344	78,273	-	166,617
Total current assets	516,377	78,273	18	594,668
Noncurrent assets				
Capital assets	7,588,266	3,465,962	37,150	11,091,378
Total assets	8,104,643	3,544,235	37,168	11,686,046
Liabilities				
Current liabilities				
Checks written against future deposits	-	596,074	-	596,074
Current portion of long-term debt	49,000	64,500	-	113,500
Accounts payable	-	469,728	-	469,728
Accrued payroll	830	985	-	1,815
Accrued interest	15,700	4,800	-	20,500
Accumulated unpaid benefits	24,600	24,600	-	49,200
Total current liabilities	90,130	1,160,687	-	1,250,817
Other liabilities				
Bonds payable (net of current portion)	1,930,000	541,500	-	2,471,500
Total liabilities	2,020,130	1,702,187	-	3,722,317
Net Assets				
Invested in capital assets, net of related debt	5,609,266	2,859,962	37,150	8,506,378
Unrestricted				
Other unrestricted	475,247	(1,017,914)	18	(542,649)
Total Net Assets	\$ 6,084,513	\$ 1,842,048	\$ 37,168	\$ 7,963,729

See Accompanying Notes to Financial Statements

City of Standish
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
Year Ended June 30, 2005

	Business-type Activities - Enterprise Funds			
	Major Funds		Nonmajor Fund	Total
	Sewer	Water	Airport	
Operating revenues				
Service charges	\$ 353,272	\$ 355,036	\$ -	\$ 708,308
Penalties	3,607	4,042	-	7,649
Other	-	10,149	-	10,149
Total operating revenues	356,879	369,227	-	726,106
Operating expenses				
Wages	30,599	31,483	-	62,082
Fringe benefits	6,341	6,708	-	13,049
Operating supplies	21,406	17,719	-	39,125
Contracted services	29,820	21,995	-	51,815
Utilities	42,512	13,564	-	56,076
Insurance	3,100	3,100	-	6,200
Gasoline	1,260	2,496	-	3,756
Cost of water	-	71,303	-	71,303
Meters	-	3,865	-	3,865
Repairs and maintenance	-	7,327	-	7,327
Depreciation	453,697	55,994	2,064	511,755
Miscellaneous	1,419	1,208	-	2,627
Total operating expenses	590,154	236,762	2,064	828,980
Operating income (loss)	(233,275)	132,465	(2,064)	(102,874)
Nonoperating revenues (expense)				
Interest and investment revenue	2,671	1,880	-	4,551
Property taxes	45,747	-	-	45,747
Debt service charges	25,970	-	-	25,970
Interest expense	(100,971)	(18,687)	-	(119,658)
Net nonoperating expenses	(26,583)	(16,807)	-	(43,390)
Income (loss) before transfers out	(259,858)	115,658	(2,064)	(146,264)
Transfers out	(75,000)	(55,000)	-	(130,000)
Change in net assets	(334,858)	60,658	(2,064)	(276,264)
Net assets - beginning	6,419,371	1,781,390	39,232	8,239,993
Net assets - ending	<u>\$ 6,084,513</u>	<u>\$ 1,842,048</u>	<u>\$ 37,168</u>	<u>\$ 7,963,729</u>

See Accompanying Notes to Financial Statements

City of Standish
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2005

	Business-type Activities - Enterprise Funds			
	Sewer	Water	Airport	Total
Cash flows from operating activities				
Receipts from customers	\$ 357,228	\$ 367,806	\$ -	\$ 725,034
Payments to suppliers	(99,517)	(142,577)	-	(242,094)
Payments to employees	(35,537)	(36,171)	-	(71,708)
Other receipts	-	10,149	-	10,149
Net cash provided by operating activities	222,174	199,207	-	421,381
Cash flows used by noncapital and related financing activities				
Transfers out	(75,000)	(55,000)	-	(130,000)
Cash flows from capital and related financing activities				
Proceeds from property taxes	45,747	-	-	45,747
Proceeds from debt service charges	25,970	-	-	25,970
Proceeds from issuance of long-term debt	-	386,000	-	386,000
Purchases of capital assets	-	(567,292)	-	(567,292)
Principal and interest paid on capital debt	(146,271)	(51,187)	-	(197,458)
Net cash used for capital and related financing activities	(74,554)	(232,479)	-	(307,033)
Cash flows from investing activities				
Interest revenue	2,671	1,880	-	4,551
Net cash provided by investing activities	2,671	1,880	-	4,551
Net increase (decrease) in cash and cash equivalents	75,291	(86,392)	-	(11,101)
Cash and cash equivalents - beginning of year	352,742	86,392	18	439,152
Cash and cash equivalents - end of year	<u>\$ 428,033</u>	<u>\$ -</u>	<u>\$ 18</u>	<u>\$ 428,051</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (233,275)	\$ 132,465	\$ (2,064)	\$ (102,874)
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation expense	453,697	55,994	2,064	511,755
Change in assets and liabilities				
Receivables (net)	349	8,728	-	9,077
Checks written against future deposits	-	9,963	-	9,963
Accounts payable	-	(4,352)	-	(4,352)
Accrued payroll	(1,284)	(667)	-	(1,951)
Due to other governmental units	-	(5,611)	-	(5,611)
Accumulated unpaid benefits	2,687	2,687	-	5,374
Net cash provided by operating activities	<u>\$ 222,174</u>	<u>\$ 199,207</u>	<u>\$ -</u>	<u>\$ 421,381</u>

See Accompanying Notes to Financial Statements

City of Standish
Statement of Assets and Liabilities
Fiduciary Fund
June 30, 2005

	Tax Collection Fund
Assets	
Cash and cash equivalents	\$ 55,982
Due from other governments	<u>63,663</u>
 Total assets	 <u><u>\$ 119,645</u></u>
Liabilities	
Due to other governments	\$ 100,333
Due to other funds	<u>19,312</u>
 Total liabilities	 <u><u>\$ 119,645</u></u>

See Accompanying Notes to Financial Statements

City of Standish
Notes to Financial Statements
June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Standish conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Government-wide and fund financial statements

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenue are reported as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are

excluded from the governmental-wide financial statements. Major individual governmental funds and the major enterprise funds are reported in separate columns in the fund financial statements.

Reporting entity

The City of Standish is governed by an elected seven member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Blended component units

A blended component unit is a legally separate entity from the City, but is so intertwined with the City that it is in substance the same as the City. It is reported as part of the City and blended into the appropriate funds.

Building Authority – The City of Standish Building Authority is governed by a board appointed by the City Council. Although it is legally separate from the City, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public buildings.

Discretely presented component units

A discretely presented component unit is an entity that is legally separate from the City, but for which the unit is financially accountable, or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or

City of Standish
Notes to Financial Statements
June 30, 2005

incomplete. They are presented within the “component unit” column of the government-wide financial statements.

Downtown Development Authority (DDA) – The members of the governing board are appointed by the City Council. The Authority’s budget is subject to approval by the City Council. The DDA does not issue any other form of financial statements except as contained in the City of Standish’s annual financial statements.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only

when payment is due.

Those revenues susceptible to accrual are property taxes, special assessments, licenses, interest revenue, and charges for services. Sales taxes collected and held by the State at year end on behalf of the government also are recognized as revenue. Fines and permits are not susceptible to accrual because generally they are not measurable until received in cash.

The City reports the following major governmental funds:

- The General Fund is the government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major and Local Street Funds account for the resources of state gas and weight revenue that are restricted for use on Major and Local Streets.
- Street Capital Project Fund handles all construction and significant maintenance of the Major and Local Street Funds.

The City reports the following Major Proprietary Funds:

- The Sewer Fund accounts for the cost of collection and treating waste waters.
- The Water Fund accounts for the costs of providing water services to City residents.

Additionally, the City reports the following:

Street Debt Service Fund – This fund collects taxes and handles all payments of principal and interest on the fund’s debt.

City of Standish
Notes to Financial Statements
June 30, 2005

Rubbish Collection Fund – This fund collects charges from customers to dispose of trash and other waste materials.

Airport Fund – This fund maintains the physical assets of the airport.

Agency Funds – The Tax Collection Fund is custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our

proprietary funds, relate to charges to customers for water sales and services and sewage disposal. The Water and Sewer Fund also recognizes tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Connection fees intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of water, sewage disposal, operations and maintenance, general and administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property tax revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2004 ad valorem tax is levied and collectible on July 1, 2004, and is recognized as revenue in the year ended June 30, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2004 taxable valuation of the City of Standish is \$35,959,703 on which ad valorem taxes levy consisted of 15.50 mills for operating purposes, 1.0 mill for street debt service, and 1.2242 mills for sewer debt service. This resulted in over \$550,000 for operating expenses, over \$36,000 for street debt, and over \$45,000 for sewer debt service, exclusive of any Michigan Tax Tribunal or Board of Review adjustments. These amounts are recognized in the General, Street Debt, and Sewer Funds financial statements as tax revenue.

City of Standish
Notes to Financial Statements
June 30, 2005

Assets, liabilities and net assets or equity

Cash and cash equivalents – The City has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of 3 months or less when acquired. Additionally, each fund's equity in the City's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty. Shared pooled investment income is allocated to each fund based on its percentage of the balance in the pool.

Receivables and payable – In general, outstanding balances between funds are reported as "due to/from other fund." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Capital assets – Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives.

Land improvements	20 years
Building and building improvements	25 to 50 years
Utility systems	25 to 50 years
Roads	20 years
Other infrastructure	20 years
Vehicles	8 years
Heavy duty equipment	10 to 20 years
Machinery, furniture, and equipment	5 to 15 years
Computer equipment	5 years

Compensated absences – Each full time employee receives an allotted amount of sick, vacation and personal time each year, and can carry forward 440 hours of sick time each year, and an unlimited amount of vacation and personal time. All accumulated sick, vacation and personal pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for terminations as of year end.

Long-term obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires

City of Standish
Notes to Financial Statements
June 30, 2005

management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Comparative data

Comparative data is not included in the City's financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of expenditures over appropriations

The City incurred expenditures in excess of budget in the General and in the Local Street Fund. Excess expenditures in these funds occurred in the following areas:

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund			
General government	\$ 508,340	\$ 518,607	\$ 10,267
Public works	375,686	398,720	23,034
Capital outlay	25,000	200,177	175,177
Debt service	72,000	90,599	18,599
Major Street Fund			
Capital outlay	1,500	178,743	177,243

NOTE 3 - DEPOSITS AND INVESTMENTS

Interest rate risk – The City does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk – State statutes and the City's investment policy authorize the City to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the local unit is allowed to invest in bonds, securities and

other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Concentration of credit risk – The City's policy states that no more than 60% of the City's total investment portfolio be invested in a single security type and no more than 80% with a single financial institution.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of June 30, 2005, \$ 201,850 of the City's bank balance of \$ 715,599 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE 4 - RECEIVABLES

Receivables as of year end for the government's individual major and nonmajor funds, and the internal service and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Sewer</u>	<u>Water</u>	<u>Nonmajor</u>	<u>Total</u>
Accounts	\$ -	\$ -	\$ -	\$ 88,344	\$ 78,273	\$ 10,842	\$ 177,459
Special assessments	-	-	-	-	-	31,884	31,884
Intergovernmental	<u>66,274</u>	<u>122,123</u>	<u>6,195</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>194,592</u>
Gross receivables	<u>\$ 66,274</u>	<u>\$ 122,123</u>	<u>\$ 6,195</u>	<u>\$ 88,344</u>	<u>\$ 78,273</u>	<u>\$ 42,726</u>	<u>\$ 403,935</u>
Due within one year	<u>\$ 66,274</u>	<u>\$ 113,501</u>	<u>\$ 6,195</u>	<u>\$ 88,344</u>	<u>\$ 78,273</u>	<u>\$ 42,726</u>	<u>\$ 403,935</u>

The allowance for all receivables at year end is zero, because all is expected to be collected.

City of Standish
Notes to Financial Statements
June 30, 2005

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
Special assessments not yet due	\$ 40,005
Grants	<u>40,506</u>
Total	<u>\$ 80,511</u>

NOTE 5 - CAPITAL ASSETS

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 701,160	\$ -	\$ -	\$ 701,160
Construction in progress	150,468	1,059,426	-	1,209,894
Total capital assets not being depreciated	<u>851,628</u>	<u>1,059,426</u>	<u>-</u>	<u>1,911,054</u>
Capital assets being depreciated				
Buildings	1,406,948	-	-	1,406,948
Equipment	802,800	157,330	-	960,130
Computer equipment	5,000	-	-	5,000
Roads	423,942	-	-	423,942
Total capital assets being depreciated	<u>2,638,690</u>	<u>157,330</u>	<u>-</u>	<u>2,796,020</u>
Less accumulated depreciation for				
Buildings	417,479	22,510	-	439,989
Equipment	735,889	31,475	-	767,364
Computer equipment	1,500	1,000	-	2,500
Roads	10,598	21,197	-	31,795
Accumulated depreciation	<u>1,165,466</u>	<u>76,182</u>	<u>-</u>	<u>1,241,648</u>
Net capital assets being depreciated	<u>1,473,224</u>	<u>81,148</u>	<u>-</u>	<u>1,554,372</u>
Governmental activities capital assets, net	<u>\$ 2,324,852</u>	<u>\$ 1,140,574</u>	<u>\$ -</u>	<u>\$ 3,465,426</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Construction in progress	\$ 217,558	\$ 1,580,202	\$ -	\$ 1,797,760
Capital assets being depreciated				
Improvements other than buildings	148,906	-	-	148,906
Sewer distribution and collection systems	12,397,555	-	-	12,397,555
Water distribution and collection systems	2,539,313	-	-	2,539,313
Total capital assets being depreciated	<u>15,085,774</u>	<u>-</u>	<u>-</u>	<u>15,085,774</u>
Less accumulated depreciation for				
Improvements other than buildings	109,694	2,064	-	111,758
Sewer distribution and collection systems	4,355,590	453,697	-	4,809,287
Water distribution and collection systems	815,117	55,994	-	871,111
Accumulated depreciation	<u>5,280,401</u>	<u>511,755</u>	<u>-</u>	<u>5,792,156</u>
Net capital assets being depreciated	<u>9,805,373</u>	<u>(511,755)</u>	<u>-</u>	<u>9,293,618</u>
Business-type capital assets, net	<u>\$ 10,022,931</u>	<u>\$ 1,068,447</u>	<u>\$ -</u>	<u>\$ 11,091,378</u>

Depreciation expense was charged to programs of the primary government as follows:

Government activities	
General government	\$ 6,563
Public works	66,198
Recreation and culture	<u>3,421</u>
Total governmental activities	<u>\$ 76,182</u>
Business-type activities	
Water	\$ 55,994
Sewer	453,697
Airport	<u>2,064</u>
Total business-type activities	<u>\$ 511,755</u>

City of Standish
Notes to Financial Statements
June 30, 2005

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

Due to/from other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Tax Collection Fund	<u>\$ 19,312</u>	Unpaid taxes

Interfund transfers

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Water	\$ 55,000	Reimbursement for services
General	Sewer	75,000	Reimbursement for services
General	Major Street	<u>25,000</u>	Operations
		<u>\$ 155,000</u>	

City of Standish
Notes to Financial Statements
June 30, 2005

NOTE 7 - LONG-TERM DEBT

The City issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the City) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity is summarized as follows:

	Maturity Dates	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities								
Special assessment bonds								
1997	1/1/11	5.00 - 5.40%	\$5,000 - \$10,000	\$ 45,000	\$ -	\$ 5,000	\$ 40,000	\$ 5,000
Building authority bonds	9/1/15	5.00 - 5.80%	\$10,000 - \$25,000	195,000	-	10,000	185,000	10,000
Capital improvement bonds	6/20/30	4.40%	\$25,000 - \$50,000	-	875,000	-	875,000	25,000
Installment loans - Dump Truck	6/1/06	5.50%	\$4,270 - \$24,016	28,536	-	4,520	24,016	4,520
Installment loans - Pickup Trucks	6/20/06	6.60%	\$9,732 - \$9,968	19,700	-	9,968	9,732	9,968
Capitalized lease - Silverado	2/28/06	5.85%	\$3,418 - \$5,064	8,482	-	5,064	3,418	5,064
Capitalized lease - Sweeper	8/1/07	4.76%	\$4,239 - \$4,680	-	157,330	46,158	111,172	51,990
Accrued interest				9,200	12,500	9,200	12,500	12,500
Compensated absences				19,793	-	7,093	12,700	12,700
				<u>\$ 325,711</u>	<u>\$ 1,044,830</u>	<u>\$ 97,003</u>	<u>\$ 1,273,538</u>	<u>\$ 136,742</u>
Business-type activities								
General obligation bond								
1999 Water	11/1/23	4.75%	\$39,000 - \$105,000	\$ 1,238,000	\$ -	\$ 36,000	\$ 1,202,000	\$ 39,000
Limited tax general obligation bonds								
2005-A Water Supply Bonds	11/1/44	4.50%	\$22,500 - \$123,000	-	193,000	-	193,000	22,500
2005-B Water Supply Bonds	11/1/44	4.50%	\$7,000 - \$39,000	-	193,000	-	193,000	7,000
Revenue bonds								
1998 Sewer	11/1/38	4.75%	\$5,000 - \$20,000	382,000	-	4,000	378,000	5,000
2000 Sewer	11/1/38	4.75%	\$5,000 - \$21,000	404,000	-	5,000	399,000	5,000
1994 Water	11/1/09	5.20 - 5.90%	\$35,000 - \$50,000	255,000	-	35,000	220,000	35,000
				<u>\$ 2,279,000</u>	<u>\$ 386,000</u>	<u>\$ 80,000</u>	<u>\$ 2,585,000</u>	<u>\$ 113,500</u>

City of Standish
Notes to Financial Statements
June 30, 2005

Annual debt service requirements to maturity for the above bond obligations are as follows:

Year Ended June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 40,000	\$ 46,568	\$ 113,500	\$ 123,253
2007	40,000	48,478	120,500	117,894
2008	45,000	46,770	130,000	112,091
2009	50,000	44,763	140,500	105,764
2010	45,000	42,455	143,000	98,749
2011-2015	250,000	177,546	462,000	412,059
2016-2020	195,000	120,030	496,500	304,532
2021-2025	200,000	78,980	508,000	175,662
2026-2030	235,000	31,680	134,000	99,657
2031-2035	-	-	170,000	64,652
2036-2040	-	-	167,000	20,237
Total	<u>\$ 1,100,000</u>	<u>\$ 637,270</u>	<u>\$ 2,585,000</u>	<u>\$ 1,634,550</u>

Installment loans

The city has obtained installment loans to purchase operating equipment. Annual debt service requirements to maturity are as follows:

Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	<u>\$ 33,748</u>	<u>\$ 1,511</u>

Capital leases

The government has entered into a lease agreement as lessee for financing the purchase of a Silverado pickup truck and an Elgin Street Sweeper. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payment as of the inception date. The future minimum lease obligations and the net present value are not materially different.

Year Ended June 30	
2006	\$ 55,408
2007	54,521
2008	<u>4,661</u>
Total minimum lease payments	<u>\$ 114,590</u>

The assets acquired through a capital leases are as follows at June 30, 2005:

Asset:	
Silverado pickup truck	\$ 20,000
Elgin Street Sweeper	157,330
Less: accumulated depreciation	<u>(20,672)</u>
Total	<u>\$ 156,658</u>

City of Standish
Notes to Financial Statements
June 30, 2005

NOTE 8 - CONSTRUCTION CONTRACTS PAYABLE

As of June 30, 2005, the City had the following construction contracts in progress:

<u>Project</u>	<u>Total Contract</u>	<u>Remaining Commitment at 6/30/05</u>	<u>Contract Payable at 6/30/05</u>
Water System Project			
Bilacic Trucking	\$ 2,191,327	\$ 690,125	\$ 371,780
Horizon Brothers	308,900	308,900	-
RCL Construction	1,739,760	1,739,760	-
2005 Franklin Steet			
Huckins Contracting	<u>211,095</u>	<u>107,473</u>	<u>93,260</u>
	<u>\$ 4,451,082</u>	<u>\$ 2,846,258</u>	<u>\$ 465,040</u>

Contracts payable at June 30, 2005 represent actual contractor billings of \$60,003 and are recorded as a Other Governmental Funds liability.

NOTE 9 - RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees.

The City of Standish is a member of the Michigan Municipal Liability and Property Pool. This pool provides for substantially all of the insurance needs of the City, including property, general liability, automobile and comprehensive crime coverage. Under most circumstances, the City's maximum loss per occurrence is limited as follows:

<u>Type of Risk</u>	<u>Deductible Per Occurrence</u>
General liability	\$ 1,000
Auto physical damage	1,000
Property coverage	1,000

The City has purchased commercial insurance for all employee health care and workers' compensation claims. Settled claims relating to the commercial insurance has not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Local governmental Unit participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers full time employees hired prior to January 1, 2001 of the City of Standish. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 447 N. Canal Rd., Lansing, Michigan 48917.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiations with the City's competitive bargaining units. The plan is funded entirely by the City for both General and Police employees.

City of Standish
Notes to Financial Statements
June 30, 2005

Annual Pension Costs – For year ended June 30, 2005, the City of Standish's annual pension cost of \$ 38,831 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry actual age cost method. Significant actuarial assumption used include: (i) a 8% investment rate of return; (ii) projected salary increases of 4.5% per year; and (iii) 2.5% per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. As established by state statute, all full-time municipal employees of the City must participate in the pension plan from the date they are hired. The City is required to contribute an amount equal to 6% of the employee's gross earnings, and up to an additional 3% based on employee contributions. The City's contributions for the year were approximately \$12,000.

Three year trend information as of December 31, 2004 follows:

	2004	2003	2002
Annual pension cost	\$ 48,222	\$ 38,831	\$ 31,446
Percentage of APC contributed	100%	100%	100%
Net pension obligation	1,452,042	1,366,320	1,100,801
Actuarial value of assets	1,294,789	1,193,690	1,095,979
Actuarial accrued liability (AAL)	1,730,003	1,801,072	1,386,669
Unfunded AAL	435,214	607,382	290,690
Funded ratio	75%	66%	79%
Covered payroll	262,608	311,013	238,484
UAAL as a percentage of covered payroll	166%	195%	122%

Defined Contribution Pension Plan

The City of Standish has a defined contribution pension plan for City employees hired after January 1, 2001 through ICMA. The City of Standish is the only nonemployee contributor to the pension plan.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contribution to the individual's account

City of Standish
Required Supplemental Information
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended June 30, 2005

	Original and Final Budget	Actual	Actual Over (Under) Final Budget
Revenues			
Taxes	\$ 554,746	\$ 552,941	\$ (1,805)
Licenses and permits	3,500	1,669	(1,831)
State grants	215,541	211,165	(4,376)
Charges for services	16,700	29,800	13,100
Interest	5,500	1,691	(3,809)
Other revenue	23,200	33,184	9,984
Total revenue	<u>819,187</u>	<u>830,450</u>	<u>11,263</u>
Expenditures			
General government	508,340	518,607	10,267
Public safety	105,161	99,282	(5,879)
Public works	375,686	398,720	23,034
Recreation and cultural	13,000	8,000	(5,000)
Capital outlay	25,000	200,177	175,177
Debt service	72,000	90,599	18,599
Total expenditures	<u>1,099,187</u>	<u>1,315,385</u>	<u>216,198</u>
Deficiency of revenues under expenditures	<u>(280,000)</u>	<u>(484,935)</u>	<u>(204,935)</u>
Other financing sources			
Capital leases	-	157,330	157,330
Operating transfers in	155,000	155,000	-
Total other financing sources	<u>155,000</u>	<u>312,330</u>	<u>157,330</u>
Net change in fund balance	(125,000)	(172,605)	(47,605)
Fund balance, beginning of year	370,761	370,761	-
Fund balance, end of year	<u>\$ 245,761</u>	<u>\$ 198,156</u>	<u>\$ (47,605)</u>

City of Standish
Required Supplemental Information
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Major Street Special Revenue Fund
Year Ended June 30, 2005

	Original and Final Budget	Actual	Actual Over (Under) Final Budget
Revenues			
State grants	\$ 114,276	\$ 192,558	\$ 78,282
Federal grants	-	95,000	95,000
Charges for services	5,000	-	(5,000)
Interest	1,375	-	(1,375)
	<u>120,651</u>	<u>287,558</u>	<u>166,907</u>
Total revenue			
Expenditures			
Public works	94,151	28,401	(65,750)
Capital outlay	1,500	178,743	177,243
	<u>95,651</u>	<u>207,144</u>	<u>111,493</u>
Total expenditures			
Excess of revenues over expenditures	<u>25,000</u>	<u>80,414</u>	<u>55,414</u>
Other financing uses			
Operating transfers out	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>
Net change in fund balance	-	55,414	55,414
Fund balance, beginning of year	<u>80,768</u>	<u>80,768</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 80,768</u></u>	<u><u>\$ 136,182</u></u>	<u><u>\$ 55,414</u></u>

City of Standish
Required Supplemental Information
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Local Street Special Revenue Fund
Year Ended June 30, 2005

	Original and Final Budget	Actual	Actual Over (Under) Final Budget
Revenues			
State grants	\$ 45,350	\$ 65,526	\$ 20,176
Charges for services	-	11,174	11,174
Interest	1,100	18	(1,082)
	<u>46,450</u>	<u>76,718</u>	<u>30,268</u>
Total revenue			
Expenditures			
Public works	46,050	33,330	(12,720)
Capital outlay	400	-	(400)
	<u>46,450</u>	<u>33,330</u>	<u>(13,120)</u>
Total expenditures			
Net change in fund balance	-	43,388	43,388
Fund balance (deficit), beginning of year	<u>(16,317)</u>	<u>(16,317)</u>	<u>-</u>
Fund balance (deficit), end of year	<u><u>\$ (16,317)</u></u>	<u><u>\$ 27,071</u></u>	<u><u>\$ 43,388</u></u>

City of Standish
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

	Rubbish Collection Special Revenue Fund	Street Debt Service Fund	Total
Assets			
Cash and cash equivalents	\$ -	\$ 50,039	\$ 50,039
Accounts receivable	<u>10,842</u>	<u>31,884</u>	<u>42,726</u>
Total assets	<u><u>\$ 10,842</u></u>	<u><u>\$ 81,923</u></u>	<u><u>\$ 92,765</u></u>
Liabilities and Fund Balance			
Liabilities			
Checks written against future deposits	\$ 10,593	\$ -	\$ 10,593
Deferred revenue	<u>-</u>	<u>31,884</u>	<u>31,884</u>
Total liabilities	<u>10,593</u>	<u>31,884</u>	<u>42,477</u>
Fund balance			
Unreserved			
Undesignated	<u>249</u>	<u>50,039</u>	<u>50,288</u>
Total liabilities and fund balance	<u><u>\$ 10,842</u></u>	<u><u>\$ 81,923</u></u>	<u><u>\$ 92,765</u></u>

City of Standish
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
Year Ended June 30, 2005

	Rubbish Collection Special Revenue Fund	Street Debt Service Fund	Total
Revenues			
Taxes	\$ -	\$ 36,819	\$ 36,819
Charges for services	34,427	7,206	41,633
Interest	-	136	136
	<u>34,427</u>	<u>44,161</u>	<u>78,588</u>
Total revenues			
Expenditures			
Public works	37,069	-	37,069
Debt service	-	7,226	7,226
	<u>37,069</u>	<u>7,226</u>	<u>44,295</u>
Total expenditures			
Net change in fund balance	(2,642)	36,935	34,293
Fund balance, beginning of year	<u>2,891</u>	<u>13,104</u>	<u>15,995</u>
Fund balance, end of year	<u><u>\$ 249</u></u>	<u><u>\$ 50,039</u></u>	<u><u>\$ 50,288</u></u>

City of Standish
Other Supplemental Information
Balance Sheet
General Fund
June 30, 2005

Assets

Cash and cash equivalents	\$ 178,063
Due from other governmental units	66,274
Due from other funds	<u>19,312</u>
 Total assets	 <u><u>\$ 263,649</u></u>

Liabilities and Fund Balance

Liabilities

Accounts payable	\$ 2,400
Accrued payroll and related liabilities	15,764
Due to other governmental units	7,324
Deferred revenue	<u>40,005</u>
 Total liabilities	 <u>65,493</u>

Fund balance	<u>198,156</u>
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Total liabilities and fund balance	<u><u>\$ 263,649</u></u>
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City of Standish
Other Supplemental Information
Schedule of Revenues Compared to Final Budget
General Fund
Year Ended June 30, 2005

	Budget	Actual	Actual Over (Under) Final Budget
Taxes			
Current property	\$ 531,743	\$ 550,455	\$ 18,712
Penalty and interest on tax collections	23,003	2,486	(20,517)
Total taxes	554,746	552,941	(1,805)
Licenses and permits	3,500	1,669	(1,831)
State grants			
State shared revenue	213,291	208,798	(4,493)
Liquor licenses	2,250	2,367	117
Total state grants	215,541	211,165	(4,376)
Charges for services			
Cemetery	900	750	(150)
Grass cutting	800	4,254	3,454
Rental and leases	15,000	24,796	9,796
Total charges for services	16,700	29,800	13,100
Interest	5,500	1,691	(3,809)
Other revenue			
Insurance reimbursement	1,200	24,117	22,917
Miscellaneous	22,000	9,067	(12,933)
Total other revenue	23,200	33,184	9,984
Other financing sources			
Capital leases	-	157,330	157,330
Operating transfers in	155,000	155,000	-
Total other financing sources	155,000	312,330	157,330
Total revenues and other financing sources	<u>\$ 974,187</u>	<u>\$ 1,142,780</u>	<u>\$ 168,593</u>

City of Standish
Other Supplemental Information
Schedule of Expenditures Compared to Final Budget
General Fund
Year Ended June 30, 2005

	Budget	Actual	Actual Over (Under) Final Budget
General government			
Legislative	\$ 139,400	\$ 154,481	\$ 15,081
City Manager	113,300	100,931	(12,369)
Elections	7,000	5,634	(1,366)
Assessor	23,700	22,823	(877)
Clerk	102,354	103,589	1,235
Board of Review	1,800	1,367	(433)
Treasurer	69,286	75,081	5,795
City hall building and grounds	40,000	48,108	8,108
Cemetery	11,500	6,593	(4,907)
	<u>508,340</u>	<u>518,607</u>	<u>10,267</u>
Public safety			
Police protection	52,050	63,299	11,249
Fire protection	35,661	35,964	303
Planning Commission	16,950	19	(16,931)
Zoning board of appeals	500	-	(500)
	<u>105,161</u>	<u>99,282</u>	<u>(5,879)</u>
Public works			
Department of Public Works	361,086	391,808	30,722
Airport	14,600	6,912	(7,688)
	<u>375,686</u>	<u>398,720</u>	<u>23,034</u>
Culture and recreation			
Library	8,000	8,000	-
Parks and recreation	5,000	-	(5,000)
	<u>13,000</u>	<u>8,000</u>	<u>(5,000)</u>
Capital outlay	<u>25,000</u>	<u>200,177</u>	<u>175,177</u>
Debt Service	<u>72,000</u>	<u>90,599</u>	<u>18,599</u>
Total expenditures and other financing uses	<u>\$ 1,099,187</u>	<u>\$ 1,315,385</u>	<u>\$ 216,198</u>

City of Standish
Other Supplemental Information
Detailed Schedule of Expenditures
General Fund
Year Ended June 30, 2005

Legislative	
Salaries	\$ 4,930
Benefits	22,616
Rent	21,286
Education and training	1,432
Contracted services	55,682
Other	<u>48,535</u>
Total legislative	<u>154,481</u>
 City manager	
Salaries	69,989
Benefits	14,717
Education and training	7,959
Travel	2,995
Contracted services	2,128
Other	<u>3,143</u>
Total city manager	<u>100,931</u>
 Elections	
Salaries	2,355
Contracted services	2,033
Office	276
Printing	<u>970</u>
Total elections	<u>5,634</u>

City of Standish
Other Supplemental Information
Detailed Schedule of Expenditures
General Fund
Year Ended June 30, 2005

Assessor	
Salaries	\$ 21,295
Education and training	466
Office	<u>1,062</u>
Total assessor	<u>22,823</u>
Clerk	
Salaries	30,632
Benefits	18,566
Education and training	1,945
Office	24,648
Contracted services	24,248
Other	<u>3,550</u>
Total clerk	<u>103,589</u>
Board of Review	
Salaries	916
Education and training	364
Office	<u>87</u>
Total board of review	<u>1,367</u>
Treasurer	
Salaries	27,218
Benefits	18,866
Office	4,070
Contracted services	22,650
Other	<u>2,277</u>
Total treasurer	<u>75,081</u>

City of Standish
Other Supplemental Information
Detailed Schedule of Expenditures
General Fund
Year Ended June 30, 2005

City hall building and grounds	
Salaries	\$ 25,813
Office	5,176
Contracted services	12,363
Utilities	<u>4,756</u>
Total city hall building and grounds	<u>48,108</u>
 Cemetery	
Salaries	5,233
Contracted services	<u>1,360</u>
Total cemetery	<u>6,593</u>
 Airport	
Salaries	3,787
Benefits	160
Contracted services	25
Insurance	2,440
Supplies	188
Utilities	<u>312</u>
Total airport	<u>6,912</u>
 Police department	
Telephone	1,562
Contracted services	57,186
Insurance	3,250
Other	<u>1,301</u>
Total police department	<u>63,299</u>

City of Standish
Other Supplemental Information
Detailed Schedule of Expenditures
General Fund
Year Ended June 30, 2005

Fire department	
Salaries	\$ 35,964
Planning commission	19
Department of public works	
Salaries	163,783
Benefits	143,140
Education and training	5,678
Gasoline	13,680
Insurance	704
Utilities	36,893
Office	151
Other	22,090
Repairs and maintenance	5,689
Total department of public works	391,808
Library	
Donations	8,000
Capital outlay	
Planning commission	36,285
Department of public works	162,753
Non-departmental	1,139
Total capital outlay	200,177
Debt service	90,599
Total expenditures	\$ 1,315,385

City of Standish
Standish, Michigan
Single Audit Report
June 30, 2005

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Report on Schedule of Federal Awards

City Council
City of Standish
Standish, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Standish for the year ended June 30, 2005, and have issued our report thereon dated November 22, 2005. These financial statements are the responsibility of City of Standish's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming opinions on the basic financial statements of City of Standish taken as a whole. The accompanying Schedule of Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in that Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

Saginaw, Michigan
November 22, 2005

City of Standish
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

<u>Federal Grantor/Pass-Through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture		
Rural Development Loan	10.760	\$ 740,000
Rural Development Loan		<u>840,202</u>
		1,580,202
Department of Housing and Urban Development		
Passed through State of Michigan		
Community Development Block Grant	14.228	<u>103,622</u>
 Total expenditures of Federal Awards		 <u><u>\$ 1,683,824</u></u>

City of Standish
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2005

1. The Schedule of Expenditures of Federal Awards was prepared using the accrual basis of accounting.
2. The following is a reconciliation between the financial statements and schedule of expenditures of federal awards.

Federal revenue per financial statements	\$ 181,085
FEMA grant expended last year but available as revenue during the current year	(86,085)
CDBG grant expended this year but not available as revenue during the current year	<u>8,622</u>
Federal revenue per schedule of expenditures of federal awards	103,622
Rural Development loans	<u>1,580,202</u>
Total expenditures of federal awards	<u>\$1,683,824</u>

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on
an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the City Council
City of Standish, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Standish as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Standish's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Standish's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 05-1 and 05-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily include all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are to be considered material weaknesses. However, we believe that none of the reportable conditions described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Standish's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to management of the City of Standish in a separate letter dated November 22, 2005.

This report is intended solely for the information and use of the City Council, management, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan
November 22, 2005

**Report on Compliance With Requirements Applicable to Each
Major Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133**

City Council
City of Standish
Standish, Michigan

Compliance

We have audited the compliance of City of Standish with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. City of Standish's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Standish's management. Our responsibility is to express an opinion on City of Standish's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Standish's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Standish's compliance with those requirements.

In our opinion, City of Standish complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control over Compliance

The management of City of Standish is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Standish's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 05-1 and 05-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan
November 22, 2005

City of Standish
Schedule of Findings and Questioned Costs
June 30, 2005

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Reportable condition(s) identified that are not considered to be material weaknesses? ☒ yes ☐ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Reportable condition(s) identified that are not considered to be material weakness(es)? ☒ yes ☐ none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

☒ yes ☐ no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.760

Rural Development Loans

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

☐ yes ☒ no

City of Standish
Schedule of Findings and Questioned Costs
June 30, 2005
(continued)

SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS

Finding 05-1 – Account Reconciliations

Specific requirement: In accordance with government auditing standards, sufficient internal controls and procedures need to be established to prevent significant deficiencies in the organization's ability to record, process, summarize, and report financial data.

Condition: Account reconciliations were not completed timely and several accounts were not reconciled at the end of the year.

Questioned Costs: None

Context: A large number of basic general ledger account reconciliations and basic general ledger postings were not performed by staff.

Cause/Effect: Procedures need to be established to prevent significant deficiencies in the organization's ability to record, process, summarize, and report financial data.

Recommendation: We recommend the City continue to evaluate staffing needs as it relates to its accounting functions and continue to make improvements in this area to make sure the City Council is getting the most accurate and up to date information on which to make decisions.

Management Response: City management is in the process of providing additional training to key members of the accounting department. Management feels that they will be up to date on the account reconciliations by the end of the current fiscal year.

Finding 05-2 – Segregation of Duties

Specific requirement: In accordance with government auditing standards, accounting duties should be segregated to help safeguard the City's assets from errors, and potential misappropriation.

Condition: A few individuals have complete control over the recording and processing of financial data.

Questioned Costs: None

Context: A few individuals are performing a variety of accounting duties of which some are incompatible.

Cause/Effect: Procedures need to be established to prevent significant deficiencies in the organization's ability to record, process, summarize, and report financial data.

City of Standish
Schedule of Findings and Questioned Costs
June 30, 2005
(continued)

Recommendation: We recommend the City make a list of the personnel and the accounting duties they perform and isolate any incompatible accounting functions that are the responsibility of one employee and reassign those responsibilities as possible.

Management Response: The City's current accounting function is operated by the City Clerk and City Treasurer. The City Manager will continue to review responsibilities, provide oversight, and attempt to segregate duties as much as possible giving weight to the staffing needs of the City and its fiscal responsibility to its citizens.

SECTION III - FEDERAL AWARD FINDINGS

See finding 05-1 and 05-2 identified under Section II.

City of Standish
Summary Schedule of Prior Audit Findings
June 30, 2005

SECTION IV – PRIOR AUDIT FINDINGS

Account Reconciliations and Segregation of Duties

Again in the current year account reconciliations were not completed timely and several accounts were not reconciled at the end of the year. In addition, accounting duties were not reviewed to isolate incompatible accounting functions.

November 22, 2005

To the City Council
City of Standish
Standish, Michigan

In planning and performing our audit of the basic financial statements of the City of Standish for the year ended June 30, 2005, we considered the City's internal control system to determine our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, we noted certain matters involving internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in design or operation of internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The following paragraphs summarize our comments and recommendations regarding those matters. This letter does not affect our report dated November 22, 2005, on the basic financial statements of the City of Standish. The first two comments are considered to be reportable conditions. The remaining comments are opportunities to strengthen the internal control system in place at the City.

ACCOUNT RECONCILIATIONS

Again in the current year some account reconciliations were not being completed timely, several accounts still were not reconciled at the end of the year. Some of these items could have been completed through some of the following: basic general ledger account reconciliations, basic general ledger posting, and simple double entry accounting. We feel that many of these items should have been reconciled by accounting staff.

We continue to recommend that a formal evaluation of the staffing needs of the City as it relates to its accounting functions are in order. We continue to recommend that management continue to make improvements in this area to make sure the City Council is getting the most accurate and up to date information on which to make decisions.

SEGREGATION OF DUTIES

The City has a few individuals who are performing a variety of accounting duties, some of which may be incompatible. Separating these duties will improve the internal controls over cash and other assets and reduce the possibility of errors and irregularities. This can be accomplished without hiring additional personnel.

We continue to recommend the City make a list of the personnel and the accounting duties they perform and isolate any incompatible accounting functions that are the responsibility of one employee and reassign those responsibilities as possible.

Page 2

November 22, 2005

To the City Council
City of Standish
Standish, Michigan

CASH AND INVESTMENT POLICY

We noted no issues of compliance with the State of Michigan requirements related to cash deposits during our audit. However, the City is in violation of its own policy to maintain no more than 80% of cash and investments at one financial institution.

We understand that with all of the activity that was occurring at the end of the fiscal year that it may have been a one time instance. However, we encourage management to review the policy to make sure that the limitations set forth in the policy reflect the financial needs and goals of the City.

TAX COLLECTION FUND

During our audit we noted that the winter tax fund had excess funds remaining after final payouts. As of the date of this letter it is unknown to whom that money is owed. We recommend that management go back and review this fund, and distribute the remaining balance to the appropriate funds or entities.

We would like to thank the Ms. Kelly and the entire City staff for their assistance during our audit. We will review the status of our comments at our next engagement, and as always please feel free to contact us if you would like assistance in resolving any of our recommendations.

We appreciate the opportunity to serve the City of Standish.

Very truly yours,

Yeo & Yeo, P.C.
CPAs and Business Consultants

A handwritten signature in black ink, appearing to read "David R. Youngstrom", with a stylized flourish at the end.

David R. Youngstrom, CPA